The European commercial property investment market ended 2016 strongly, with €65.1 billion transacted in Q4, a 62% jump from Q3. This took volumes for the whole year to €201.7 billion, a 20% decrease from 2015. Nonetheless, 2016 was the second-strongest year since the previous market peak of 2007, with volumes 25% above the 10-year average.

The drop in investment activity in 2016 primarily resulted from a sharp decline in the UK in the wake of the Brexit vote in June, which was exaggerated in Euro terms by the depreciation of the Pound. There were smaller, but still significant, decreases in activity in Europe’s two other largest markets, Germany and France. However, countries including the Netherlands, Poland and the Czech Republic had strong years, driven partly by investors seeking pricing opportunities in non-core markets.

Although the UK remained the most active market in Europe for 2016 as a whole, it was second to Germany during H2. With geopolitical uncertainties increasing elsewhere, Germany has become the favoured European location for investors seeking a “safe haven” market. Its low-risk reputation should boost investment activity throughout 2017, as long as the German federal elections later in the year have no negative impact on sentiment.

Although transaction volumes have fallen in the UK, this market will attract investor demand in 2017, albeit with a much-changed buyer profile. The London market is currently seeing a wave of new market entrants from Asia, who are taking advantage of currency movements and reduced competition from more cautious established investors.

European prime office yields came under further downward pressure in Q4 2016, with the Knight Frank European Weighted Average Prime Office Yield hardening by 4 basis points. This was primarily driven by yield compression in markets such as Budapest, Lisbon and Prague which have, to date, lagged core Western European markets. However, prime office yields also hardened in Munich to an all-time low of 3.30%. Despite being at record low levels, it is anticipated that German prime yields will harden further in 2017 on the back on strong investor demand.

Aggregate office take-up in the major European markets monitored by Knight Frank increased by 3% in 2016. Markets including Amsterdam, Berlin, Brussels, Frankfurt and Paris all recorded significant improvements in leasing activity, although these were to some extent counterbalanced by reduced take-up in London, Madrid and Milan.

European prime office rental growth was limited in Q4, although increases were recorded in Berlin, Madrid, Munich and Stockholm, all of which have a diminishing availability of Grade A CBD space. However, prime rents decreased in the West End of London for the second successive quarter, and have fallen by 8.7% in six months. With the exception of London, most major European markets are forecast to record moderate rental increases in 2017, with the most likely rental growth hotspots being markets in Ireland, Spain, Sweden and Germany, particularly Berlin and Munich.
AMSTERDAM
Booking.com has acquired for its own occupation more than 60,000 sq m of office space in a building to be constructed on the Oosterdokseiland site near the Central Station.

BERLIN
Prime office rents continued on an upward trajectory in Q4, reaching €300 per sq m per annum, driven by exceptionally strong demand and low supply, with the vacancy falling to 4.1%.

DUBLIN
The TMT sector remains a key driver of office demand in Dublin, underlined by Amazon’s recent leasing of 14,000 sqm in the new Veritam Building.

FRANKFURT
The TaunusTurm office tower was acquired in Q4 by a consortium including Tishman Speyer, the Qatar Investment Authority and Finnish institutional investors Varma and Elo, for a price reportedly to be €650 million.

LONDON
The West End leasing market was relatively subdued in Q4, but the City leasing market reached the year’s highest level of take-up, matching 187,000 sqm, boosted by several major transactions including the FT’s pre-lease of over 17,000 sqm at Bracken House.

MADRID
Madrid office take-up in 2016 failed to reach the previous year’s level, despite a number of large deals in Q4 including Huawei’s lease of over 21,000 sqm in the Castellana Norte business park.

MILAN
Marking its sixth acquisition in Italy in 2016, Hines has completed the purchase of the Palazzo della Lupa office building for €220 million, on behalf of French institutional investor CNP Assurances.

PARIS
Paris office take-up reached 250,000 sqm in the first quarter of 2016, marking the strongest Q1 in a decade, underpinned by the Conseil Régional d’Île-de-France’s acquisition of 56,800 sqm in two buildings to be constructed in Saint-Ouen.

WARSZAWA
Despite record new supply of 607,000 sqm in Q4 2016, the Warsaw vacancy rate dropped in Q4 from 14.6% to 14.2% due to an exceptional finish to the year, boosted by a pre-lease of 22,000 sqm to BGŻ BNP Paribas.

ORIGIN DESTINATION

USA
-7.5 bn
-5.8 bn
-3.5 bn
-2.9 bn
-2.4 bn
-2.1 bn
-2.0 bn
-1.9 bn
-1.9 bn
-1.9 bn
-1.9 bn
-1.7 bn
-1.7 bn
-1.7 bn
-1.7 bn

FRANCE
-25.7 bn
-13.4 bn
-3.8 bn
-9.9 bn

GERMANY
-65.6 bn
-56.1 bn
-31.2 bn
-13.7 bn
-3.2 bn
+22.5%
+24.4%
-42.0%
-35.8%
+25.8%

SOURCE: Real Capital Analytics / Knight Frank Research

FIGURE 4
Major Cross-Border Capital Flows, 2016

FIGURE 5
European commercial property investment volumes, 2016

Source: Real Capital Analytics / Knight Frank Research

Investment volumes comprise office, retail, industrial and hotel transactions.

-20.3% Change on 2015

-201.7 bn Commerical Investment, 2016
Berlin was Europe’s rental growth hotspot in 2016, with prime office rents increasing by 25% over the course of the year.

**Commercial property prime rents and yields**

<table>
<thead>
<tr>
<th>City</th>
<th>Prime rents (€/sq m/yr)</th>
<th>Prime yields (%)</th>
<th>Logistics Prime yields (%)</th>
<th>Shopping centres Prime yields (%)</th>
<th>Retail warehousing Prime yields (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam</td>
<td>365</td>
<td>4.50</td>
<td>85</td>
<td>5.75</td>
<td>1,000</td>
</tr>
<tr>
<td>Barcelona</td>
<td>258</td>
<td>4.50</td>
<td>66</td>
<td>6.25</td>
<td>552</td>
</tr>
<tr>
<td>Berlin</td>
<td>380</td>
<td>3.50</td>
<td>69</td>
<td>5.25</td>
<td>1,380</td>
</tr>
<tr>
<td>Brussels</td>
<td>300</td>
<td>5.00</td>
<td>55</td>
<td>6.25</td>
<td>1,800</td>
</tr>
<tr>
<td>Bucharest</td>
<td>216</td>
<td>7.50</td>
<td>48</td>
<td>8.75</td>
<td>720</td>
</tr>
<tr>
<td>Budapest</td>
<td>264</td>
<td>6.50</td>
<td>42</td>
<td>8.00</td>
<td>1,140</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>242</td>
<td>4.00</td>
<td>77</td>
<td>6.00</td>
<td>699</td>
</tr>
<tr>
<td>Dublin</td>
<td>646</td>
<td>4.50</td>
<td>80</td>
<td>5.25</td>
<td>3,250*</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>416</td>
<td>5.25</td>
<td>101</td>
<td>6.50</td>
<td>2,775*</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>482</td>
<td>4.00</td>
<td>80</td>
<td>5.00</td>
<td>1,560</td>
</tr>
<tr>
<td>Geneva</td>
<td>699</td>
<td>3.25</td>
<td>186</td>
<td>5.75</td>
<td>1,083</td>
</tr>
<tr>
<td>Hamburg</td>
<td>300</td>
<td>3.50</td>
<td>72</td>
<td>5.00</td>
<td>1,650</td>
</tr>
<tr>
<td>Helsinki</td>
<td>396</td>
<td>4.00</td>
<td>120</td>
<td>5.75</td>
<td>1,200</td>
</tr>
<tr>
<td>Lisbon</td>
<td>222</td>
<td>5.00</td>
<td>45</td>
<td>6.75</td>
<td>1,140</td>
</tr>
<tr>
<td>London 1,324 (WE) 883 (City)</td>
<td>3.50 (WE) 4.25 (City)</td>
<td>177</td>
<td>4.50</td>
<td>5,614*</td>
<td>593</td>
</tr>
<tr>
<td>Madrid</td>
<td>336</td>
<td>3.90</td>
<td>66</td>
<td>6.25</td>
<td>556</td>
</tr>
<tr>
<td>Milan</td>
<td>500</td>
<td>4.50</td>
<td>50</td>
<td>7.00</td>
<td>850</td>
</tr>
<tr>
<td>Moscow</td>
<td>760</td>
<td>10.00</td>
<td>68</td>
<td>12.50</td>
<td>3,226</td>
</tr>
<tr>
<td>Munich</td>
<td>432</td>
<td>3.30</td>
<td>85</td>
<td>5.00</td>
<td>1,900</td>
</tr>
<tr>
<td>Oslo</td>
<td>473</td>
<td>4.00</td>
<td>134</td>
<td>5.50</td>
<td>1,319</td>
</tr>
<tr>
<td>Paris</td>
<td>770</td>
<td>3.00</td>
<td>58</td>
<td>5.75</td>
<td>2,500</td>
</tr>
<tr>
<td>Prague</td>
<td>234</td>
<td>5.00</td>
<td>48</td>
<td>6.25</td>
<td>1,380</td>
</tr>
<tr>
<td>Stockholm</td>
<td>636</td>
<td>3.75</td>
<td>110</td>
<td>5.50</td>
<td>827</td>
</tr>
<tr>
<td>Vienna</td>
<td>309</td>
<td>4.00</td>
<td>72</td>
<td>7.00</td>
<td>1,200</td>
</tr>
<tr>
<td>Warsaw</td>
<td>288</td>
<td>5.25</td>
<td>60</td>
<td>7.00</td>
<td>1,800</td>
</tr>
<tr>
<td>Zurich</td>
<td>746</td>
<td>3.00</td>
<td>233</td>
<td>5.50</td>
<td>1,398</td>
</tr>
</tbody>
</table>

Indicative prime yields, as quoted locally, based upon a hypothetical Grade A unit. Office rents are for prime city area Grade A space, 2,000 sq m. Shopping Centre rents are based on prime covered shopping malls, quoted on best position, 100 sq m units. Retail Warehouse rents are for units of 1-6,000 sq m located in purpose built parks. Typical Retail Warehouse schemes vary between countries. Logistics rents are for prime industrial space of units over 5,000 sq m. The data above is provided for general reference purposes only. Local market conditions will vary. *Zoned/weighted figure. Arrows provide a broad indication of recent movements and the short-term outlook for prime rents and yields. London office data is quoted for the West End (WE) and City (C) submarkets.

Source: Knight Frank Research

**FIGURE 6 Prime office rental cycle**

The above diagram is intended to provide a comparative guide to the current positions of European prime office markets in their rental cycles. Markets will move through their cycles at different speeds and, sometimes, in different directions. The positions indicated in the diagram do not constitute formal forecasts of future rental trends.